



# Budget Development Assumptions



- Anticipated modest revenue growth in FY13.
- Assumed cost increases would be needed for the Basic Education Program, TennCare, Health Insurance, Retirement Pension Contribution, Employee Salaries and Debt Service.
- Assumed some of the \$160 million in non-recurring Core Services would need to continue – if possible.
- Anticipated base reductions would be needed to balance.

# Budget Development Approach

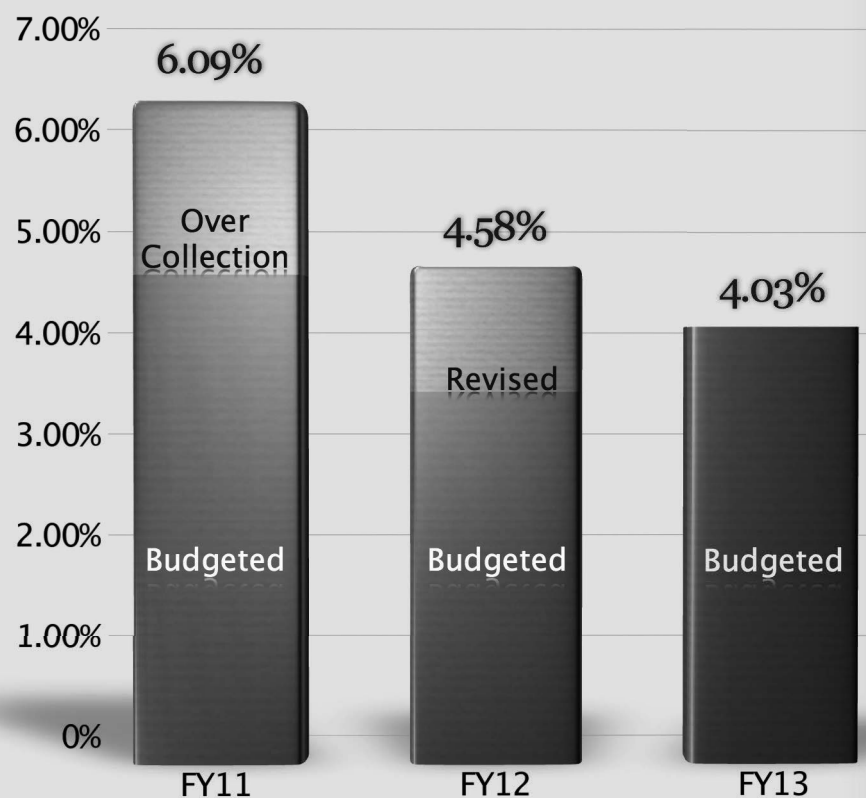


- Requested that agencies submit a thoughtful and realistic 5% reduction plan.
- Questioned the need for long-term vacant positions.
- Carefully reviewed the need for any cost increases.

# General Fund Revenue

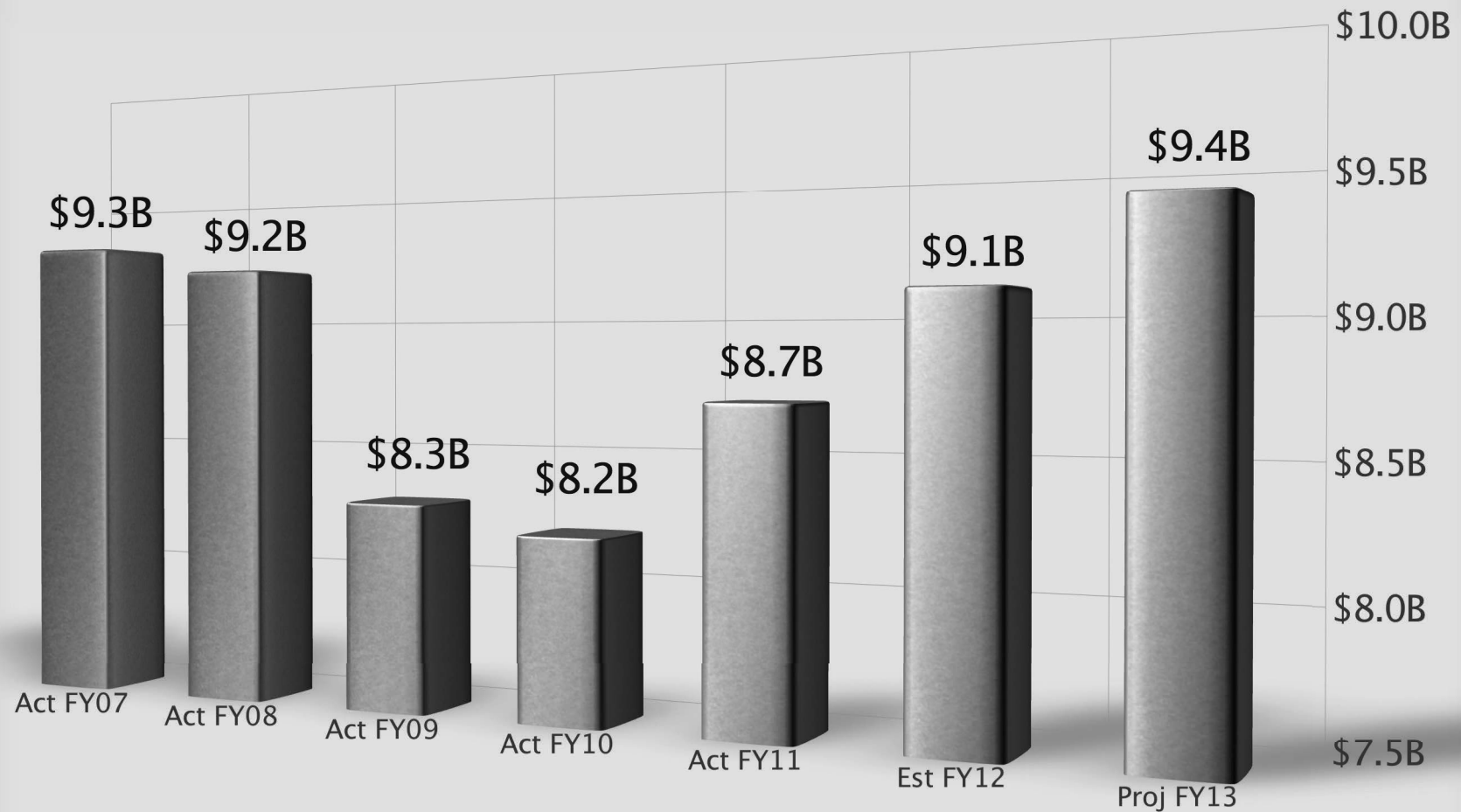
Adjustment	Recurring Revenue
Revenue Growth at 4.03%	\$365.9M
Increase in Revenue Base	209.6
Transfer from Debt Service	18.0
Restore Dedicated Taxes to Earmarked Programs	(14.3)
Tax Legislation (E-filing, intangible expense)	14.0
Proposed Tax Relief Legislation	(33.0)
Undesignated Fund Balance from FY12	15.1
FY12 Reserve for Capital Outlay	10.8
Other Adjustments	\$ .5

**Assumes Revenue Growth of 4.03% in FY13**



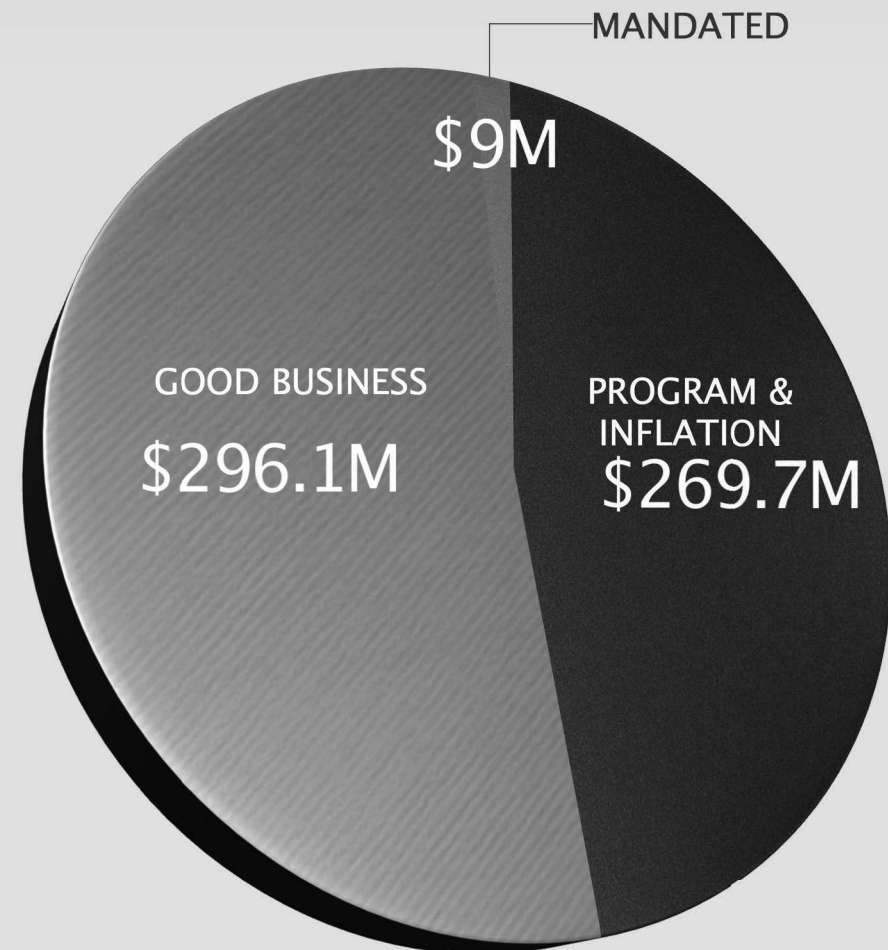
# General Fund Revenue

**Has Taken 6 Years to Return to Previous Collection Level**



# Cost Increases

<b>Mandated Increases</b>	<b>\$9.0M</b>
<b>Mandated Salary Increases:</b> (Judiciary & Commissioned Officers)	
<b>TennCare:</b> Match Rate Changes	
<b>Program &amp; Inflation Growth</b>	<b>\$269.7M</b>
<b>Program Growth:</b> TennCare, CoverKids, BEP, DIDD, Correction (New Prison & Local Jail Population)	
<b>Inflationary Growth:</b> Health Insurance, Retirement, Contract Services, Pre-K	
<b>Good Business</b>	<b>\$296.1M</b>
<b>Salaries:</b> 2.5% Salary Policy, Market Salary Study, \$30M Market Salary Adjustment	
<b>Higher Education:</b> Recognizing Outcome-Based Formula; Need-Based Aid Grants, 529 College Savings Plan	
<b>ECD:</b> FastTrack Infrastructure Grants	
<b>Improving Government:</b> State Purchasing, Systems Development, Work Space Planning	
<b>Restore / Continue Programs in TennCare &amp; Health:</b> FQHCs, Provider Rates, Primary Care Clinics	



# Cost Increases

	Recurring	Non-Recurring
<b>MANDATED (State &amp; Federal)</b>		
Statutory salary increases (Judicial, Commissioned Officers)	\$3.6M	\$0
TennCare federal match rate change	3.1M	0
Courts – interpreter services	2.0M	0
<b>PROGRAM &amp; INFLATIONARY COSTS – Major Items</b>		
TennCare program growth	78.9M	0
K-12 BEP formula growth	47.8M	0
Correction: new prison opening & local jail population	76.8M	1.8M
CoverKids: inflation and enrollment growth	8.9M	0
Employee benefits (TCRS and health insurance)	27.9M	0
Legislative initiatives	\$2.0M	\$3.0M

# Cost Increases

	Recurring	Non-Recurring
<b>GOOD BUSINESS</b>		
Higher Education: recognize new outcome-based formula	\$25.4M	\$10.0M
Higher Education: TSAA grants – need-based aid grants	3.4M	0
TennCare: restore provider rate reductions, continue Medically Needy	20.5M	18.9M
ECD: FastTrack Infrastructure and Jobs Training Program	10.0M	10.0M
Health: continue FQHC grants and Primary Care Clinic grant (recurring)	7.4M	0
State employee salary policy (2.5%)	123.8M	0
State employee market salary adjustment (January 1, 2013)	30.0M	(15.0M)
Establish new 529 Savings Plan for college	.4M	1.7M
Establish new Business Solutions Delivery Systems Development	1.2M	0
Strategic sourcing initiative	0	5.0M
Establish Pre-Planning Revolving Fund for state buildings	.5M	8.0M
Tourist Development – marketing & advertising	\$3.5M	\$0



- THA willing to support the continuation of Assessment Fee in FY13.
- Fee revenue estimated to continue at current revenue level (\$449.8M).
- Fee revenue will be used to match federal funds to delay already identified reductions.
- Continuation of fee will require Legislative approval.

# State Employees

2.5% Salary Increase – Includes state employees, higher education, and BEP.	\$123.8M
Salary Market Adjustment – First year funding.	30.0M
Group Health Insurance - Increases of 4% for state employees and higher education, 5% for BEP.	26.0M
401(k) State Match – Continue \$50 per month match (\$40 recurring / \$10 non-recurring).	16.4M
Retirement Contribution – Rate increase from 14.91% to 15.03%.	1.9M
Statutory Salary Increases (Judicial & Commissioned Officers)	3.6M
<b>Total Salaries and Benefits Cost Increases</b>	<b>\$201.7M</b>

# Core Services

- \$103.8M and 53 positions are restored with recurring funding.
- \$16.1M and 16 positions are restored with non-recurring funding.



- \$38.1M restores recurring funding in K-12 Education:
  - Coordinated School
  - Safe School Grants
  - Teacher Extended Contracts
- \$37.4M restores recurring funding programs in Health & Social Services:
  - Mental Health Programs for Alcohol and Drug Abuse
  - Mental Health Recovery Services
  - Mental Health and Health Safety Net Programs
  - Child Care Benefits in Human Services
  - DCS Juvenile Prevention Grants
- \$16.4M continues state match to 401K program (\$40 Rec / \$10 NR).
- \$8.7M restores Real Estate Transfer Tax revenue to Land & Soil programs.

# Core Services

	FY12 Funding	FY13 Recommendation		
		Total	Recurring	Non-Rec
Law & Safety	\$1.3M	\$ .2M	\$ .2M	\$ .0M
Health & Social Services	57.6M	38.8M	37.4M	1.4M
Education	74.0M	58.8M	46.8M	12.0M
Resources & Regulation	11.3M	9.0M	8.9M	.1M
Business & Economic Development	4.6M	3.2M	3.2M	-
General Government	11.2M	9.8m	7.3M	2.5M
<b>TOTAL</b>	<b>\$160.0M</b>	<b>\$119.9M</b>	<b>\$103.8M</b>	<b>\$16.1M</b>

# Recurring Base Reductions

Total Reduction	\$215.6M
State	109.7M
Federal	98.1M
Other/Dedicated	7.7M

- \$109.7M in state funded reductions.
- Reduces federal funding by \$98.1M.
- 2% average reduction to FY12 recurring base.
- 249 state positions to be reduced
  - 183 filled positions
  - 65 vacant positions
  - 1 part-time position

# Reductions – Selected Items

## **TennCare**

Limit retroactive eligibility payments	\$23.3M
Change requirements for nursing facility care	15.9M
Change policy for hospital/provider preventable events	2.0M
Enhance use of 3 <sup>rd</sup> party payments for pharmacy costs	2.4M

## **Higher Education**

Reduce funding support by 1.9%	19.4M
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## **Children's Services**

Close Taft Youth Development Center	8.5M
Change Staff Training Program	2.5M

## **Mental Health**

Align Regional Mental Health Inst staffing with bed levels	\$2.0M
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# Reductions – Selected Items

## **Human Services**

Align funding with program costs (Voc. Rehab)	\$3.0M
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## **Education**

Align funding with program costs (TEIS & Assessments)	3.1M
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## **Environment & Conservation**

Offsetting reductions with State Park program revenue	.9M
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## **Agriculture**

Offsetting reductions with Forestry program revenue	1.2M
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## **Safety**

Reduce position staffing (24 positions)	1.9M
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## **Revenue**

Reduce mail volume with electronic notification	\$1.8M
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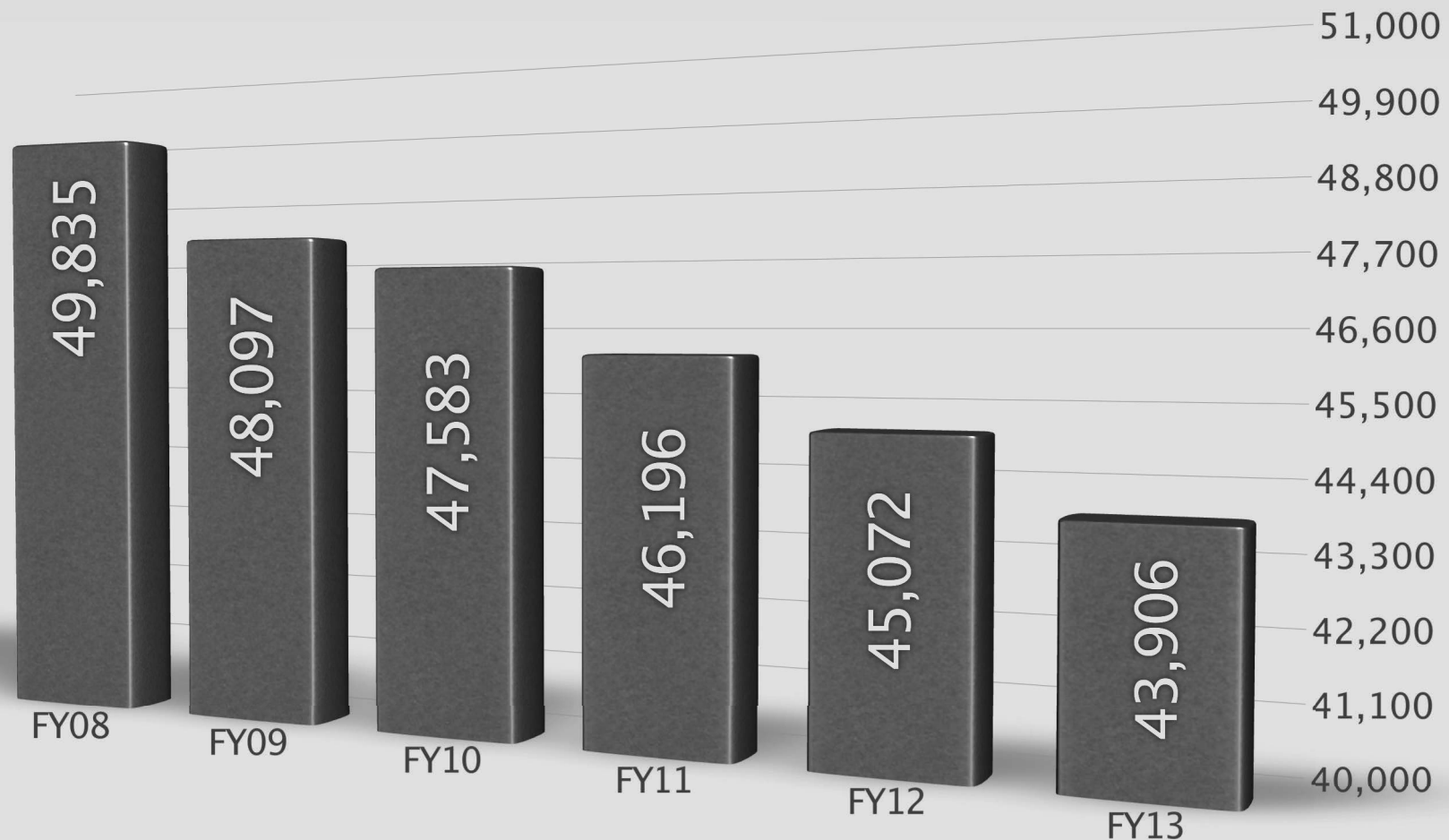
# State Employee Position Adjustments



Current positions (General Fund)	45,072	
Long-term vacancies reduced	(835)	
Recurring base reductions	(249)	
Closure of Lakeshore	(308)	
Core services reductions	(98)	
Non-recurring appropriations	(78)	
Other adjustments	(70)	
Agency requests	472	
Recommended positions	43,906	
Change from current year	(1,166)	(2.6%)



# State Employee Position History



General Fund Positions

# Governor's Legislative Initiatives

## Fiscal Impact



### Tax Relief

Reduce sales tax on grocery food from 5.5% to 5.3%	(\$18.0M)
Raise inheritance tax exemption level from \$1M to \$1.25M	(15.0M)
<b>Total Revenue Reduction</b>	<b>(33.0M)</b>

### Other Revenue Measures

#### E-filing/NIC Fees/Alcohol and Tobacco

Sales Tax	1.0M
Excise Tax	.1M
Business Tax	.4M

#### Intangible Expenses

Franchise & Excise Taxes	12.5M
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<b>Total Revenue Impact</b>	<b>\$14.0M</b>
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# Governor's Legislative Initiatives Fiscal Impact



## State Programs

### Public Safety - incarceration

Gang violence \$4.8M

Repeat offenders domestic violence .9M

State share of local cost of incarceration .8M

Gun violence .3M

Prescription drugs (\$28,300) .0M

Transitioning Youth Empowerment Act (DCS) .4M

BEP formula change to class size and salaries .8M

Law enforcement death benefit (\$25,000) .0M

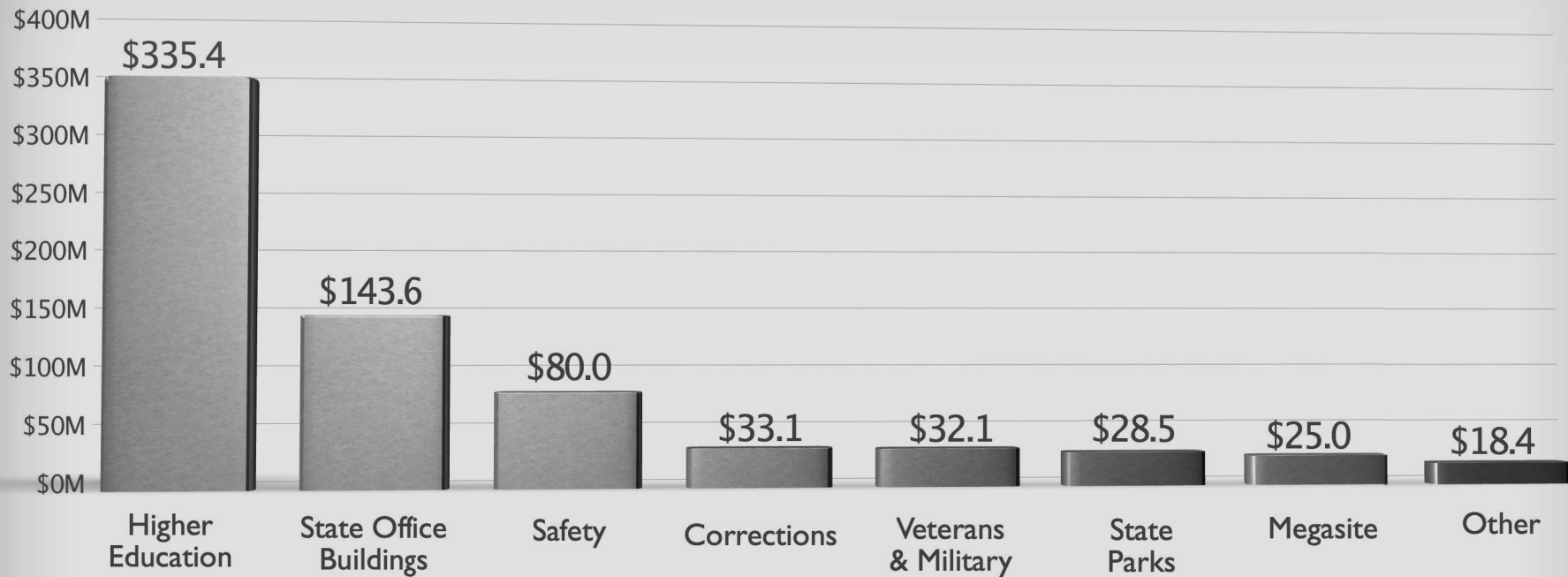
Correction – transfer supervision functions from Board of  
Probation and Parole (.7M)

E-filing/NIC Fees/Alcohol and Tobacco (4 positions) (.5M)

**Total Costs** \$6.8M

# Capital Outlay - Overview

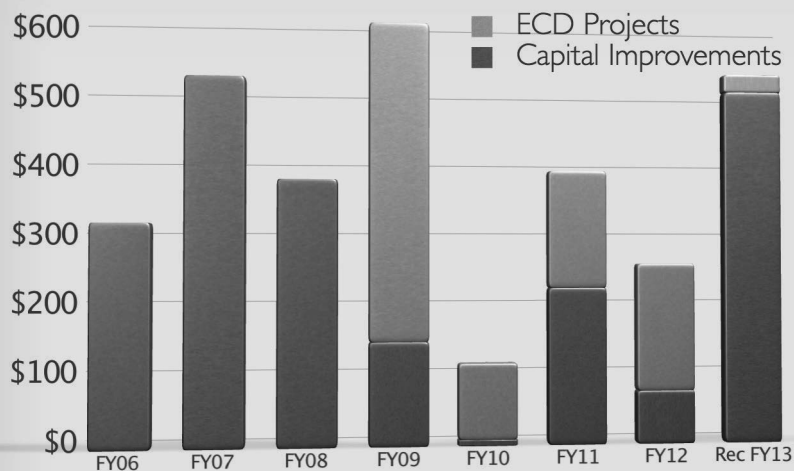
## Capital Outlay



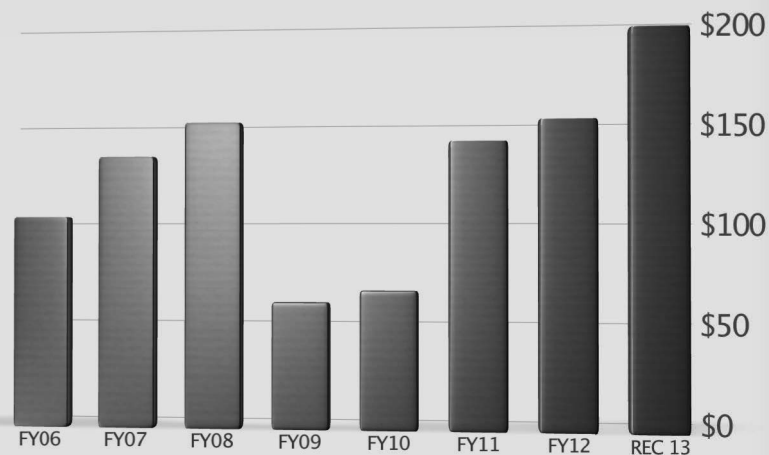
	Total	State	Bonds	Federal	Other
<b>Projects</b>	\$527.4M	\$202.0M	\$236.6M	\$17.8M	\$71.0M
<b>Maintenance</b>	168.7M	61.7M	65.3M	1.8M	40.0M
<b>Total</b>	\$696.1M	\$265.7M	\$301.9M	\$19.6M	\$109.0M

# Capital Outlay Funding

## Capital Projects



## Capital Maintenance



### Capital Projects

Higher Education	\$263.2M
State Parks	11.1M
Correction: Command & Technology	8.6M
Phase 2: Safety Communication Sys	80.0M
Phase 2: West TN Megasite	25.0M
New Veterans Home (Bradley Co.)	23.2M
Other Agencies	14.9M
Statewide: Revolving Fund Projects	101.4M
<b>Total Capital Projects</b>	<b>\$527.4M</b>

### Capital Maintenance

Higher Education	\$72.2M
State Parks	17.4M
Correction	24.5M
Statewide	14.1M
Other Agencies	10.5M
Statewide: Revolving Fund Projects	33.2M
<b>Total Capital Maintenance</b>	<b>\$168.7M</b>

# Capital Outlay – Higher Education

## Capital Improvements

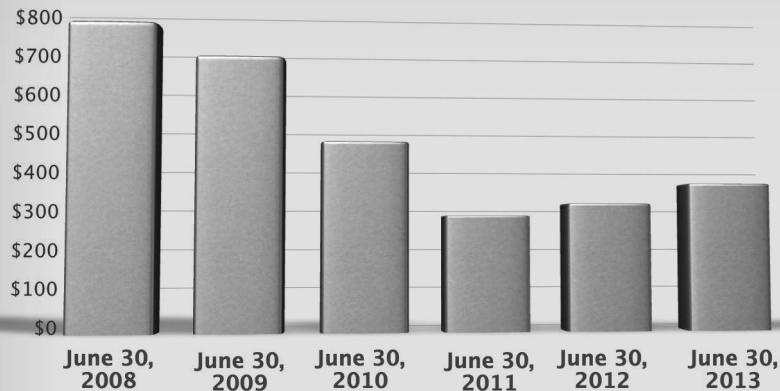
MTSU Science Building	\$126.7M
UTK Strong Hall Science Lab	94.0M
UTHSC Simulation Center	24.1M
Pre-Planning - Multiple Projects	14.4M
UTHSC Buildings Demolition	4.0M
Maintenance	72.2M
<b>Total Capital Improvements</b>	<b>\$335.4M</b>



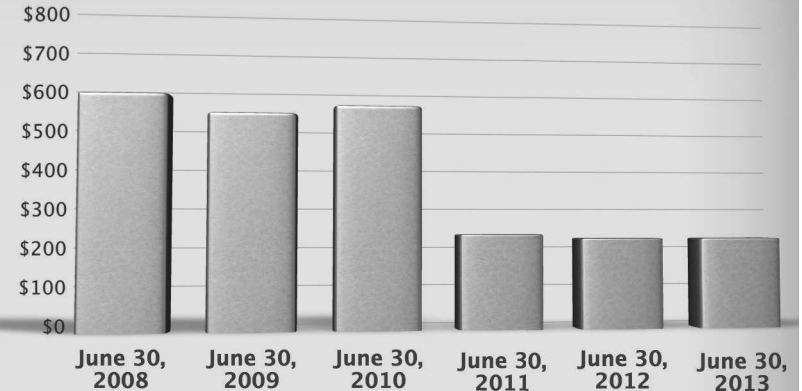
- Funds top 3 projects in higher education (MTSU Science Building #1)
- Begin pre-planning for future projects
- Substantial increase in funding for Higher education maintenance

# Reserves

**Rainy Day Fund**



**TennCare Reserve**



- \$50 Million deposit into Rainy Day Fund.
- 2<sup>nd</sup> consecutive year to build reserves.
- Projected June 30, 2013 Rainy Day Fund balance of \$356M represents approximately 3.14 percent of revenue.
- TennCare reserve is projected to remain at \$228.7M.

# Supplemental Funding to FY12



DEPARTMENT	DESCRIPTION	STATE
TennCare	Partially restore reductions set to occur on January 1, 2012	\$7.3M
DIDDs	Clover Bottom transition delay	2.1M
Environment	Maximize federal match: Clean Water & Drinking Water Fund	2.0M
Correction	Local jail payments & Mental Health service contract	31.9M
ECD	FastTrack Infrastructure & Job Training Assistance	50.0M
ECD	Headquarter relocation assistance	34.0M
Education	BEP correct formula rounding error	2.0M
Mental Health	Lakeshore Mental Health - transitional funding	4.8M
Safety	Revenue loss due to delayed fiscal impact of 2011 legislation	6.6M
Other	Accounting change & indirect cost adjustments	6.1M
Other	Miscellaneous	1.1M
TOTAL		\$147.9M



# Summary - Revenues

	Recurring	Non-Recurring
GF Revenue Growth @ 4.03%	\$365.9M	-
Base Adjustment to Revenue	209.6M	-
Adjustments		
Available funding from FY12	15.1M	374.0M
FY12 Reserved for Capital Outlay	10.8M	11.1M
Transfer from Debt. Service Fund	18.0M	-
Tax Legislation		
Tax Legislation – Tax Relief	(33.0M)	15.0M
Tax Legislation (E-filing & Intangible Exp)	14.0M	-
Other Adjustments	0.5M	449.8M
Restore Dedicated Taxes	(14.3M)	-
<b>Total Sources</b>	<b>\$586.6M</b>	<b>\$849.9M</b>

# Summary Requirements & Adjustments

	Recurring	Non-Recurring
Costs Increases	\$504.5M	\$70.3M
Core Service Items – Continued	94.5M	16.1M
Base Adjustments	(12.3M)	449.8M
Base Reductions	(109.7M)	-
Reduce Long-term Vacant Positions	(18.6M)	-
Metro Sports Authority Debt Service	0.5M	-
Capital Outlay	33.1M	263.7M
Reduce Overappropriation	94.5M	-
Rainy Day Fund Deposit	-	50.0M
<b>Total Uses</b>	<b>\$586.6M</b>	<b>\$849.9M</b>

# Total Funding By Source

	Estimated FY12	Recommended FY13	Percent Change
<b>State</b>	\$13.63B	\$14.00B	2.7%
<b>Federal</b>	13.13B	12.30B	(6.3%)
<b>Other</b>	3.26B	2.91B	(10.7%)
<b>Tuition &amp; Fees</b>	1.49B	1.49B	0.0%
<b>Bonds</b>	.42B	.38B	(9.5%)
<b>TOTAL</b>	\$31.93B	\$31.08B	(2.7%)

# Total Funding By Fund

	Estimated FY12	Recommended FY13	Percent Change
<b>General Fund</b>	\$28.31B	\$27.18B	(4.0%)
<b>Transportation</b>	1.82B	1.74B	(4.4%)
<b>Debt Service</b>	.43B	.44B	2.4%
<b>Capital Outlay</b>	.36B	.56B	55.5%
<b>Facilities Revolving</b>	.16B	.28B	75.0%
<b>Cities &amp; Counties</b>	.85B	.88B	3.5%
<b>TOTAL</b>	\$31.93B	\$31.08B	(2.7%)

### **The Budget Control Act of 2011**

- If Congress fails to act by January 15, 2012, automatic across-the-board spending reductions will be proposed (Sequestration).
- Reductions will take effect January 2, 2013.
- State specific impact – yet to be determined.

### **Impact on Tennessee - Unknown**

- The exact percentage of the FY2013 reduction is still not known.
- It will be determined by OMB after the FY2013 appropriations are set.
- Some of the adjustments are subject to legal interpretations by OMB.
- Congress may enact legislation that modifies the exemptions or special rules.
- It is possible for the entire Act to be altered by Congress anytime before January 2013.

# Unknown

## Impact of Congressional Action on Federal Budget



### Programs **EXEMPT** from Across the Board reductions

Social Security	Medicaid
Child Nutrition Programs	Foster Care
Children's Health Insurance Program	Adoption Assistance
Federal Pell Grants	Federal Highway Obligations
Supplemental Nutrition Assistance Prgm	Highway Traffic Safety
Temporary Assistance for Needy Families	

### Largest Programs **NOT** Exempt (Subject to Across the Board reductions)

Medicare	National Guard
Education Title I	Aging Programs
Special Education	Adult Education
Women, Infants and Children (WIC)	Homeland Security
Workforce Investment	Employment Services
Head Start	Low-Income Home Energy Assistance Prgm (LIHEAP)
Community Development Block Grant (CDBG)	Section 8 Housing
Community Services Block Grant	Child Care and Development Block Grant

Source: Federal Funds Information for States

# Long-Term Expectations

## Future Budget Issues



- Expect future revenue growth to be moderate.
- Expect a significant amount of revenue growth will be required to fund program and inflation costs.
- Health Reform set to begin January 1, 2014 – assuming no change to current law.
- Reasonable to expect additional reductions will be required next year to remain in balance.

# Summary

- Fully funds the BEP and TennCare program growth.
- Funds higher education based on outcomes.
- Provides for a salary increase.
- Takes long-term vacant positions off the books.
- Starts to address long-deferred capital outlay projects in both state government and higher education.
- Supports Public Safety Task Force recommendations.
- Takes first step in tax relief.



**THANK YOU!!!**